Annual Report

1985

Changing for the Future

Polysar

Corporate Profile

Polysar Limited is a $2-billion Canadian international petrochemical company. It is the world's largest producer of synthetic rubber and latex and a major producer of basic petrochemicals and fuel products. Additional product lines include plastics and rubber compounds.

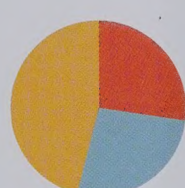
With corporate headquarters in Sarnia, Canada, the Polysar Group has 20 plants in six countries–Canada, the United States, Belgium, France, The Netherlands, and West Germany. More than 6,600 employees in 15 countries are involved in manufacturing, sales, technical support and research and development. Most of Polysar's products–sold in more than 90 countries–are used by other manufacturers who process them further into finished industrial and consumer items.

All the Company's outstanding common shares are held by Canada Development Corporation. Polysar's preferred shares are widely held by the Canadian public.

Basic Petrochemicals

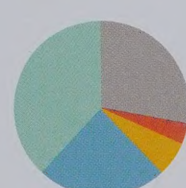
Rubber

Diversified Products



1985 Sales Revenue by Group

- Basic Petrochemicals $494 milion 27%
- Rubber $840 million 46%
- Diversified Products $507 million 27%



1985 Sales Revenue by Market Area

- Canada $513 million 28%
- United States $698 million 38%
- Europe $446 million 24%
- Asia-Pacific $109 million 6%
- Other $75 million 4%

- **Petrosar Limited acquired in mid–1985.**
- **Sales and total assets increased as a result of Petrosar consolidation.**
- **Earnings declined to $0.1 million from $35.9 million in a year of transition.**

Financial Highlights

Polysar Limited
Year ended December 31, 1985

Operations ($ millions)	**1985**	1984
Sales and other income	**1,868.0**	1,416.2
Net income	**0.1**	35.9
Cash from operations	**66.5**	123.7
Per Common Share ($)		
Net income (loss)	**(0.52)**	1.13
Dividends	**0.74**	0.27
Financial Position ($ millions)		
Working capital	**282.0**	148.8
Long-term debt	**733.2**	644.3
Minority interest	**325.3**	85.3
Shareholders' equity	**775.9**	398.0
Total assets	**2,431.2**	1,468.7

President's Report

Robert S. Dudley, President and Chief Executive Officer

For Polysar, 1985 can be viewed as a year in which disappointment with our financial results was tempered by our pride in significant accomplishments. We did not make the progress expected in improving our financial strength. We did, however, make substantial progress in a number of areas which will result in improved financial performance in the years ahead and, in the longer term, will enable us to achieve our vision to become one of the world's foremost petrochemical companies.

We view 1985 and 1986 as years of transition and change for the future. We have laid the foundation for long-term growth, shaping a company characterized by high quality products and service, superior technology in its chosen fields, innovation, and leadership in several significant businesses. We believe that such characteristics will enable us to achieve our profitability goals of being in the top 25 percent of our industry.

A Year of Change

In 1985, we took purposeful steps toward our goals. The Company acquired full ownership of Petrosar Limited to ensure supply of essential feedstocks at competitive prices for our Canadian operations. The effective integration of Petrosar, the expansion of the Company's presence in the Asia-Pacific region, and the decision to aggressively pursue new business areas accentuated the need for changed emphasis at the corporate level. A realignment of responsibilities was undertaken in 1985 to accommodate these basic changes to the Company's spread of interest. (Full details of this reorganization are discussed on pages four and five.)

Reflecting the full consolidation from mid-year of Petrosar's results, revenues were up 32 percent over 1984 to $1.9 billion. The foreseen negative impact from the consolidation was absorbed in total by the results from Polysar's traditional businesses. The Company broke even on the year.

In our traditional businesses, the strong performances by our latex, specialty rubbers and European rubber operations, were offset partially by the unsatisfactory performance of our commodity products which were subjected to strong price pressure through the year.

In 1985, the first of the transitional years for Petrosar, we were encouraged by a number of positive external and internal changes. These changes enhanced the possibility of achieving an early turnaround in performance.

Crude oil was fully deregulated, allowing the Company to negotiate domestic prices that are competitive with those of U.S. Gulf Coast petrochemical companies. The current moves toward gas deregulation are also very positive. We share, however, a concern with others that gas may not be totally deregulated. If the petrochemical industry in Canada is to compete on a world basis, it requires competitive oil and gas feedstocks. We believe this can only be achieved through full deregulation of both gas and oil. The current drive to free trade with the United States reinforces this need.

As oil prices fall, there will be arguments to reimpose some form of control. This must be resisted to prevent an adverse impact on the free market system and in particular the petrochemical industry and other downstream users of energy products.

Petrosar was acquired in the belief that with the right combination of factors, the operation could be turned around and returned to profitability. If the margins for ethylene, propylene and other petrochemicals continue to improve as they did in the last two quarters of 1985, we are confident that the Basic Petrochemical operation will be profitable in 1987.

Corporate Strategies

Polysar is convinced that steps taken in 1985 will enable the Company to implement effectively its strategic plans.

Strengthen the Company Financially.

The priority strategy in this period of transition is to strengthen the Company financially by tight control of costs, continued emphasis on productivity, and elimination of losses from our commodity businesses. Cash flow from operations of over $200 million per year will be generated to provide the platform from which to achieve our strategic goals.

Grow Existing Businesses with Increased Emphasis on Higher Value-added Products.

Polysar is countering a flattening demand for general purpose rubber products by increasing its efforts to develop specialty products. While these products are sold in smaller volumes, they offer higher margins. Halobutyl rubbers are expected to continue to show strong growth.

In the Latex business, Polysar enjoys a strong position in traditional latex applications and has also developed several new specialty latexes. Strong efforts will be made to expand in new applications and to broaden our geographic base.

Enter New and Related Petrochemical Businesses which Will Contribute 25 Percent of Profits by 1995.

Polysar's orientation toward higher-margin specialty products will form a springboard to attractive new markets in the coming decade. In particular, the Diversified Products Group has been given a strong mandate to grow by utilizing current technical developments, and by selective acquisitions in emerging business areas related to the Company's technical and marketing expertise.

Strengthen our Geographic Base by Establishing a Presence in Asia-Pacific.

We view the Pacific Rim nations as a sizeable market for us in the future. To pursue sales and investment opportunities in this region effectively, a separate Asia-Pacific Division has been created within the Company.

Our long-range goal is for the Asia-Pacific region to make a contribution comparable to that of the North American and European operations.

Establish New Businesses Through Internally Developed Technology.

The commitment to a long-range Research and Development programme at the corporate and operating levels is essential in helping us meet our goals. We have been fortunate in being able to recruit fine staff to build our polymer research capability. These scientists, aided by such facilities as our new plastics research laboratory in Leominster, Massachusetts, will help us achieve the innovation we seek.

Balance Short Term Needs With Long Term Goals.

In the short term, it will be important to achieve a balance between the need to strengthen our financial position by curtailing new investments and the need to provide funds for our future growth and diversification. We have chosen in this situation to invest in new product technology and process improvement while constraining investments in new plants.

Outlook

In 1986, Polysar should profit as a result of strengthening margins for basic petrochemicals and the recent, substantial reduction in world oil prices. Management initiatives to improve productivity and improve sales of our more profitable products, will also contribute significant gains over 1985.

We expect to improve our performance by rapidly implementing the feedstock flexibility programme in the former Petrosar plant, and by effectively managing our product and geographic strategies.

While there continues to be great uncertainty regarding petrochemical prices and world oil prices, we believe that the likely scenario will be more favourable than the last two years.

Changes to the Board

In 1985, there were some significant changes to our Board of Directors. We will miss the wise counsel of D. C. Jones of Calgary, Alberta, who retired from the Board in June. He had been a Director since 1975. We welcome to the Board R. H. Marchesseault, Vice-President of Xerox Research Centre of Canada, Mississauga, Ontario; J. W. Johnstone Jr., President of Olin Corporation, Stamford, Connecticut; and B. F. Isautier, Executive Vice President, Canada Development Corporation, Toronto, Ontario.

Polysar People

Our Management Council has played an important role during this transition period and will continue to do so. Through this council of managers selected from our world-wide operations, our focus on change and the need to adapt our operations have been communicated throughout the Company.

Our more than 6,600 employees around the world have provided good support in an adverse business environment. Now that the environment has shifted somewhat in our favour, I know that I can count on the same commitment and support in working toward our common goals. On behalf of the Board of Directors, I would like to thank all managers and staff for their dedication and loyalty as Polysar builds for the future.

R.S. Dudley

Robert S. Dudley
President and
Chief Executive Officer
March 15, 1986

Changing for the Future

Polysar's new Asia-Pacific team.
Top, from left; Samuel N. Angove, G. Michael Hicks, Michael G. Davis, Bottom, from left: Graham Means, A.L. "Bud" Greene and John Walker.

As a $2-billion worldwide Company, Polysar is a considerably different organization than it was a year ago. In line with Polysar's emphasis on leading-edge technology and pursuit of new products and markets, the Company has been restructured significantly. The new organization accommodates the acquisition of Petrosar and its integration with Polysar's other feedstock operations, and provides the opportunity to concentrate on existing businesses along with the development of new products and markets. It also provides the right structure for a concerted effort to expand the Company's presence in Pacific Rim markets.

In 1985, the Company seized the opportunity provided by the right combination of internal and external factors to amalgamate Petrosar's petrochemical and fuel operations with Polysar's feedstock preparation facilities. By making this acquisition, the Company ensured the supply of essential feedstocks for its Canadian operations.

Feedstock flexibility

The success of this amalgamation hinged upon the timely presence of several important factors. A major plant conversion programme is boosting the Company's feedstock flexibility to crack natural gas liquids. This move, together with deregulation of Canada's oil industry, allows Polysar to become competitive with U.S. Gulf Coast petrochemical producers. The lifting of U.S. trade barriers on crude oil exports allows the Company to purchase crude oil in the United States, or to move oil from other world sources through U.S. facilities. In addition, the creation of a partnership, Calgary-based CanStates Energy, provides market experience and expertise in the sourcing of liquid natural gas feedstocks. Through this partnership, natural gas liquids

(NGLs) will be shipped to the Consumer's Power plant in Marysville, Mich. where they will be stored and fractionated. CanStates will market these NGLs, and pipeline connections are being installed to connect a CanStates affiliate, St. Clair Storage, with Polysar's Corunna plant.

The merger of the feedstock operations under the new Basic Petrochemicals Group allows the Company to reap substantial operating benefits. Polysar can plan purchasing and pricing to maximize corporate profits and permit downstream operations to concentrate on development of technically superior, innovative products. This new group accounts for 27 percent of total Company sales.

In addition to Basic Petrochemicals, Polysar's new operating structure includes two other business units based on products: Rubber and Diversified Products. A fourth business group has been established to focus on Polysar's growth strategy in the Asia-Pacific region.

The Rubber Group, is the largest product area with 46 percent of sales and is the major profit contributor to Polysar. Its products include general purpose rubber, such as polybutadiene and styrene butadiene, and specialty rubbers, including butyl, halobutyl, nitrile, and ethylene propylene. This group is emphasizing specialty rubber products where demand is growing and Polysar has a competitive lead.

The Diversified Products Group, which comprises Polysar's latex, plastics, and specialty products businesses, accounts for 27 percent of sales. This group absorbs the Company's former Latex, Styrenics, and Custom Compounding divisions. Within this group, Polysar has formed a Specialty Products business to develop new products, new markets and new businesses, with a focus on technology and high margin products.

The Company's new Asia-Pacific Group represents something of a departure from Polysar's organization by product line. By establishing this new group, Polysar has taken the first step to develop a regional presence similar to that of its North American and European operations.

Polysar believes the Asia-Pacific region offers an opportunity for significant new sales.

Polysar's Basic Petrochemicals Division is moving ahead with several projects to increase feedstock flexibility. Included are modifications to the Corunna plant (left) which will allow it to process natural gas liquids (NGLs). Consumer's Power employee Joseph Mitchell works on equipment at the Marysville, Mich. plant where NGLs will be stored for Polysar's Corunna operations.

The Company anticipates strong demand for butyl rubber and other specialty rubbers, as well as steady growth in other business areas.

After doing business in the region for more than 25 years, Polysar aims to capitalize on its successes while laying the groundwork for a widespread sales, warehousing, and manufacturing operation based in the region.

Singapore office

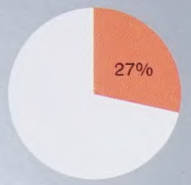
The new regional headquarters for this group, part of Polysar International S.A., will be opened in Singapore by the third quarter of 1986. Directors of technical service, sales development, marketing, business development, and Chinese business have been appointed. Polysar will also establish a laboratory and technical service facility, as well as distribution facilities, to complement its existing distribution network.

In 1985, Polysar undertook new initiatives which will be pursued by the Asia-Pacific Group. The Company signed an agreement to enter into a joint venture with an existing latex business in Shanghai, People's Republic of China, to provide technology to triple the production of a 1,000-ton plant, and has plans for a future 10,000-ton plant. In addition, the Company has completed a feasibility study for a Chinese polystyrene plant and now seeks an appropriate joint-venture partner.

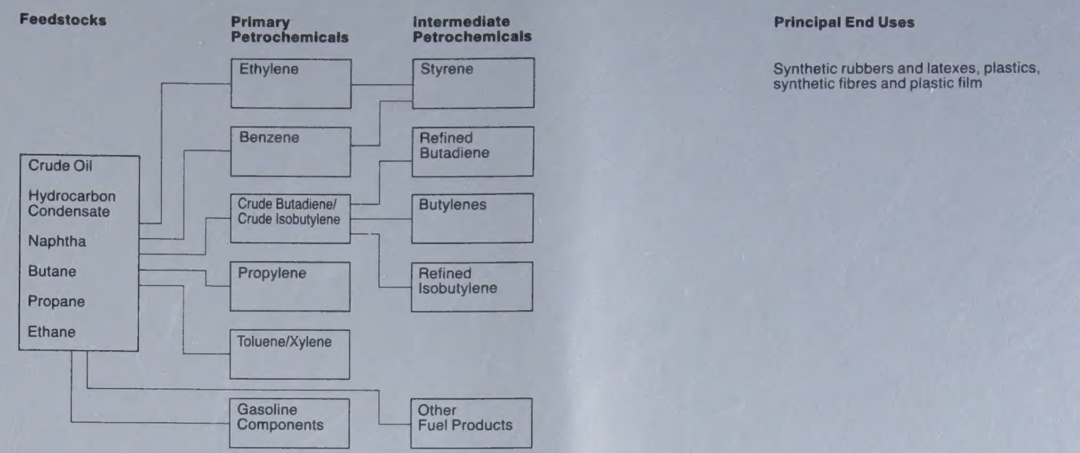
1985 at a Glance

- To ensure a secure supply of feedstocks at competitive prices for its Canadian operations, Polysar acquired all outstanding shares in Petrosar Limited.
- The Company was restructured to accommodate the acquisition, to provide for significant new growth and to expand its presence in the Asia-Pacific region.
- A new division has been created to focus on new products, new markets and new businesses.
- Changes made in 1985 will enable Polysar to realize its vision of becoming one of the best international petrochemical companies by the year 2000.

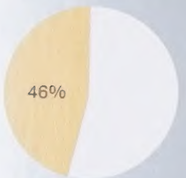
Basic Petrochemicals



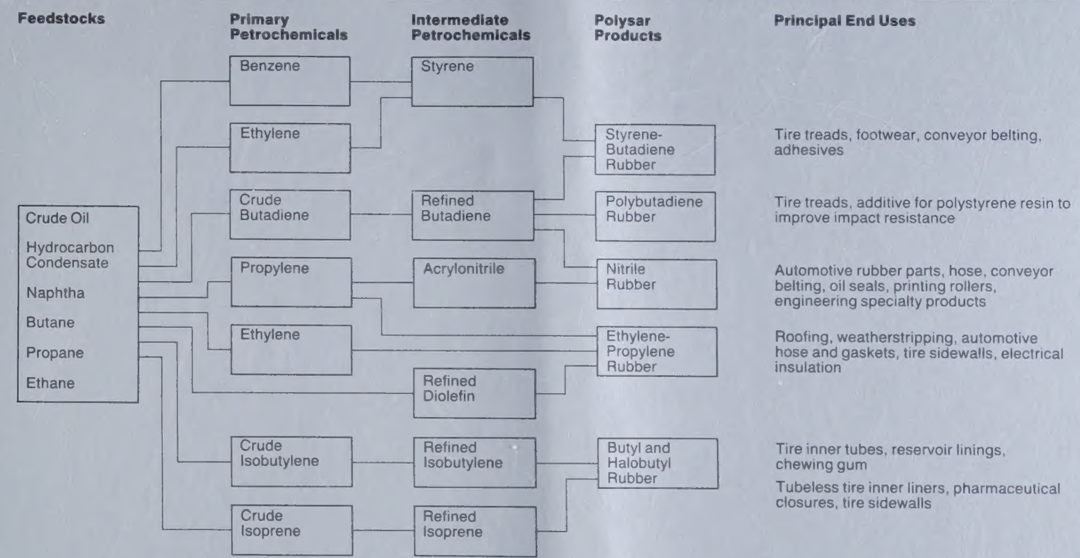
Following reorganization of the Company in mid-1985, this business unit was formed to encompass the combined basic feedstock and fuels operations of Polysar and Petrosar. Group sales were about $800 million in 1985. Approximately $500 million of these sales of basic petrochemical products and fuels were made to outside customers, with the balance to Polysar's downstream operations. In addition to ethylene, other petrochemical products produced by this group are propylene, butadiene, isobutylene, benzene, toluene, xylene and styrene monomer.



Rubber



Polysar offers one of the widest ranges of synthetic rubber available from a single company. The Company's rubber operations account for about nine percent of the world's total annual synthetic rubber production. Since the early 1960s, the Company has moved aggressively to establish international production facilities. Polysar operates plants in Canada, the U.S., France, and Belgium, selling products to 95 countries. In addition to general purpose rubbers, the Company's products include a strong range of specialty rubbers, sold in lower volumes than commodity products, but at an improved return-per-pound to the Company. Specialty products in which Polysar holds a competitive edge include butyl, halobutyl and nitrile rubbers.



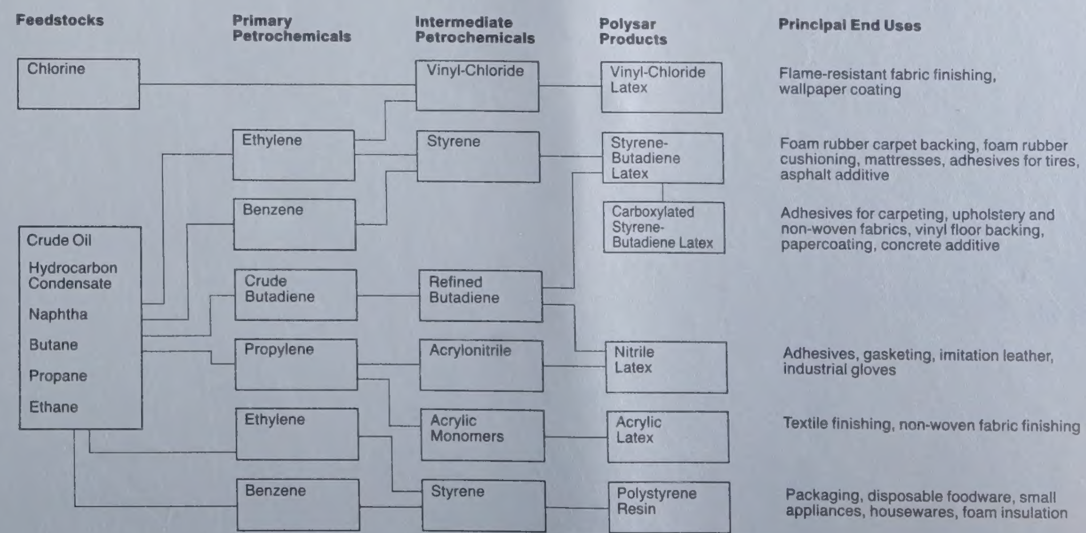
Diversified Products

This new group, which consists of the Latex, Plastics, and Specialty Products divisions, was forged within the Company's strategy of actively seeking new business opportunities.

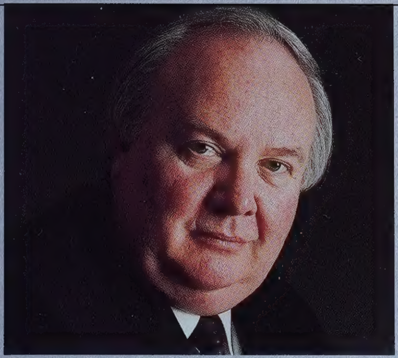
The Latex Division, the group's largest, produces a range of products for use in carpet backing, paper coating, textiles, adhesives, and other applications at six plants in Canada, the U.S., and Europe.

The Plastics Division comprises several polystyrene resin manufacturing operations in North America. A major R&D effort to develop a profitable plastics business through highly engineered products is now under way.

The new Specialty Products business will focus on high-margin products requiring specialized marketing. The strategy is to enter several new businesses through new technology or by acquisition.

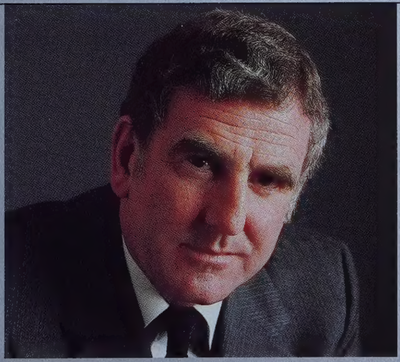


Sales by Group



G. Firman Bentley
Group Vice-President
Basic Petrochemicals

Charles Ambridge
Group Vice-President
Rubber



John Beaton
Vice-President
Diversified Products

During 1985, the Company acquired 100 percent of Petrosar Limited, which operates a petrochemical refinery near Polysar's Sarnia, Ontario, manufacturing facilities. While the unprofitable Petrosar operation had a $41-million negative impact on net income in 1985, the Company is confident that internal and external changes already underway will result in group profitability by the first quarter of 1987.

This new unit represents the melding and streamlining of two organizations and corporate cultures. Primarily, this merger provides substantial operating efficiencies and a secure source of high quality, competitively priced feedstocks for Polysar's North American rubber, latex, and polystyrene operations. Because in 1985 feedstocks and energy represented 85 percent of Petrosar's annual costs and 60 percent of Polysar's, combining all feedstock operations into one group makes a lot of sense. As discussed earlier, this integration was enhanced by a favourable environment in which to make the merger.

Outlook for ethylene

The group's primary product is ethylene, which accounts for about one third of its annual petrochemical production. It also produces fuels and petrochemicals such as styrene monomer, butadiene, and isobutylene for use in Polysar's downstream operations. The two major ethylene customers are Union Carbide Canada and Du Pont Canada. While the Union Carbide plant using this product is for sale, the Company's take-or-pay contract will ensure continued demand should the plant be sold.

By year end 1985, the price of ethylene was firming, while at the same time, the price of crude oil feedstocks was falling. Together, these conditions provide a favourable outlook for ethylene. Because the Company produces 900 million pounds annually, a price increase of one cent U.S. per pound results in a $11-million pretax increase in Polysar's net income.

Coupled with the external factors of lower feedstock prices and higher ethylene prices, internal improvements also will bolster the efficiency and profitability of the Corunna site.

Conversion programme

A major conversion programme is underway to increase feedstock flexibility and save energy at the Corunna plant. It is important that this group has the physical flexibility—which it now lacks—to use either oil components or natural gas liquids, depending on which happens to be cheaper and more plentiful to be competitive with the Gulf Coast producers. Only the most efficient and flexible companies with access to a variety of low cost feedstocks can be successful competitors. The total capital cost of these projects is now below the original targeted cost of $100 million and work is ahead of schedule.

Included is a $25-million programme of equipment changes and modifications, to be completed by the summer of 1986. This will permit the Company to use up to 40 percent of natural gas liquids such as propane and butane as feedstocks in place of historically more expensive crude oil. And through a partnership, CanStates Energy of Calgary, Polysar has been able to ensure a secure and competitively priced source of natural gas liquids.

The Company has also started a major energy efficiency programme to reduce the amount of fuel needed in the cracking process by 1987.

Another important aspect of the conversion program is vacuum gas oil cracking, which will allow the Company to crack heavy fuel oils. This $6.5-million project, to be completed before the end of 1986, should result in annual savings of $8 million.

Operator Sharon Tucci in a section of the Basic Petrochemicals Group plant where crude oil and condensates are distilled to produce feedstocks for the plant's cracking heaters.

Left: One of 12 cracking heaters at Polysar's Corunna plant where various feedstocks are converted to ethylene and other petrochemical products.

Rubber

The 1985 operating year was one of consolidation within the Company's Rubber Group. While financial results were somewhat disappointing, the group remained the major profit contributor to Polysar.

European operations showed good profitability in a difficult operating environment characterized by swings in the U.S. dollar relative to European currencies. The group enjoyed success with further growth in the halobutyl rubber market, as customers continued to recognize the value of these products in high quality tire production.

The net contribution of the Company's North American operations was lower than in 1984, due to the absorption of financing and other fixed costs of the Sarnia Butyl II plant, which became fully operational during the year.

North American operations also were affected by a decline in rubber consumption, despite a strong automotive market. The downsizing of cars and tires and the presence of increased imports combined to reduce rubber demand. While U.S. rubber consumption fell seven percent, Polysar maintained its volume but did not register expected increases. Prices declined for general purpose rubbers but remained fairly stable for specialty products.

Specialty products are clearly the key component of Polysar's strategy. Chief among these is butyl rubber and its chlorine-or bromine-modified derivatives, the halobutyls. In addition to their widespread use in tires, important other applications for these products are being pursued which include protective clothing and pharmaceutical closures.

Another fast growing specialty rubber is a new grade of ethylene-propylene. Produced by Polysar Gulf Coast Inc. in Orange, Texas, specifically for the European market, this new product has gained good acceptance. It blends readily and provides improved impact resistance in automobile bumpers.

Cost reductions

General purpose styrene-butadiene rubber (SBR), used primarily in tire treads, received less emphasis. In 1986 Polysar will withdraw from production of general purpose SBR at its Sarnia, Ontario, plant. The change will permit the Company to reduce costs and to develop a more efficient nitrile operation. Production of general purpose SBR will continue at the Strasbourg, France, plant to serve the European market. The Company will continue to manufacture polybutadiene rubber in its two North American plants.

Polysar's rubber operations have had considerable success in the Asia-Pacific region, where significant sales growth has occurred in the past five years. With the creation of the Asia-Pacific Group, there will be a concentrated effort by Polysar to expand its business in Eastern Europe, the Middle East, Africa and India.

Quality assurance is an important aspect of the Rubber Group's activities. Polysar, recognized as the top-quality producer in Western Europe, is competitive with Japanese producers and is consistently achieving quality excellence in North America.

Stressing timely service and quality, it has moved closer to customers during the past year to ensure that the needs of the customers are met reliably and consistently. Polysar is working with customers to develop electronic links to their plants.

The Company continually strives for improvements in productivity. In the Orange, Texas operation, productivity on some products has improved 40 to 50 percent during the past four years, while costs have remained steady.

In 1986, Polysar's Rubber Group is aiming for higher sales volumes in its specialty products. The Company will focus on cost control, product development and aggressive marketing of high quality products such as butyl, halobutyl, nitrile, and ethylene propylene.

Process assistant Saverio Cocozzoli with a typical 34-kg bale of butyl rubber at Polysar's Sarnia plant.

Left: Butyl rubber up close.
This rubber and its cousins, the halobutyls, are specialty Polysar products used mainly in tires and pharmaceutical closures.

Diversified Products

The new Diversified Products Group, which consists of the Latex, Plastics, and Specialty Products Divisions, had combined 1985 sales of over $500 million, representing 27 percent of total Company sales. While the divisions are quite different from each other, they share a common mandate for significant growth. The Company expects sales of this business unit to more than double during the next five years.

Latex

Latex, with 1985 sales of more than $300 million or 16.3 percent of total Company sales, had an outstanding year overall and should continue to be a strong performer in 1986. The division's performance was highlighted by very good results from the North American operations. European operations came up somewhat short of expectations as a result of a difficult trading environment and rising raw material prices. However, it was still a rewarding year.

Since 1980 overall latex sales have almost doubled and profitability has significantly improved, due to cost efficiencies and better pricing. In future, Polysar looks to continued growth of its current business, plus the impact of new technology, acquisitions, and joint ventures, to reach its goals.

Polysar produces more than 70 varieties of latex, which is an emulsion of polymeric particles in water. Markets in industries such as carpeting, paper, textiles, and adhesives are quite different from those served by other Polysar divisions and help lessen the Company's exposure to the automotive market.

Increased market share

The main markets for latex are carpet backing and paper coating, which together account for the majority of divisional sales. The Company has increased its share of these important markets as well as growing with the markets. These areas continue to offer strong growth potential.

Carboxylated and high solids styrene-butadiene latexes are the two primary types which Polysar sells to the floorcovering industry. Europe is the major market for high solids latex because of its use in foam-backed carpets. European carpet-backing styles, traditionally different from those in North America have, however, begun to change. Polysar is well prepared to participate in this changing market because of its extensive experience in carboxylated styrene-butadiene latex technology in both Europe and North America.

The primary grade which Polysar sells to the paper coating industry is carboxylated styrene-butadiene latex, but acrylic latex is also produced by Polysar for sale to this market in Europe.

The European and North American paper-coating markets have shared strong demand during the past three years. The strong U.S. dollar certainly benefitted exports of European paper manufacturers and created additional demand for Polysar's products.

The Company is concentrating on the development of specialty latex products that will lead to new applications and vigorous growth. These include products to modify asphalt and concrete for increased flexibility and toughness for use in bridge decking, roads, and other construction projects. Other specialty applications include pressure-sensitive adhesives, oil-drilling muds, textile and upholstery treatments, and oil-resistant products for dipped goods. The Company is also investigating the agricultural use of latex, particularly as a mulch. Field trials of a new latex mulch product are underway in Ontario and Florida.

During 1986, the outlook for the division is for steady growth in the major latex markets and important new thrusts to develop new product markets.

At Sarnia plant, operating assistant James E. Fellows prepares to load latex into a tank truck for delivery to a customer.

Left: Polysar's liquid latex products come in a wide range, tailored for the needs of the carpeting, paper, textile and adhesives industries.

Plastics

The Company's plastics business, which consists of the production of polystyrene resin in North America, has experienced strong demand but extremely poor margins for some time, due to industry overcapacity. In 1985, the division had sales of $150 million, or 8.1 percent of total Company sales.

The polystyrene industry is dominated by the vertically integrated oil companies which rely on polystyrene as an outlet for ethylene and benzene in the form of styrene monomer. Polystyrene is the major use for styrene monomer which has been in global over-supply for several years. Polysar also relies on polystyrene as the major market for its own styrene monomer production. In the long-term, polystyrene margins are expected to improve as global demand approaches styrene and polystyrene capacity.

While the business as it exists has been unsatisfactory, Polysar intends to use its established polystyrene resin business as a base from which to diversify into more lucrative plastics products. The plan is to double its plastics sales by 1990. The Company's primary aim in the longer term is to develop a profitable plastics business through high technology, engineered products.

The outlook for polystyrene is for improved performance this year, as a result of internal improvements. Demand should continue strong, based on growth in packaging, construction, disposables, medical and other markets.

In September 1985, Polysar opened its first plastics-dedicated research and development laboratory in Leominster, Massachusetts and has staffed it with a group of experienced plastics scientists from a variety of backgrounds. Work at this facility focuses on developing products which build on Polysar's diverse polymer expertise to produce basic plastics, modified to meet particular market and application needs.

This group is concentrating on technology for significant new products and markets in the automotive, civil engineering and electronic industries. Polysar expects to commercialize its initial developments in 1987.

As part of its strategy, Polysar will grow through acquisition of businesses which it can develop through added technology.

Specialty Products

The mandate of the new Specialty Products Division is to build on the products and technology that currently exist in the Corporation and to acquire new technologies and businesses. This division should provide significant new opportunities, with sales targeted to reach $250 million by 1990.

The business at the present time consists of custom compounding, in which Polysar adds value to rubber products through custom and proprietary mixing with reinforcing agents, fillers, curatives, and other additives.

During the past year, profitability was down from 1984. Significant new customers have been developed during 1985, and the outlook is for a 20 percent increase in sales and profits from this business in 1986.

Polysar's growth strategy for Specialty Products is to focus on high margin products which require specialized marketing and support services, and to enter new businesses through development of new technology or acquisition. A new, highly market-oriented product development team is scouting the Company and the market for innovative products which could be developed by the Specialty Products Division.

New products currently under consideration include a stretch-and-stick material, new modifiers for polyester and asphalt, orthopedic materials, and other additions to the current sealants, adhesives and silicone product lines.

In 1986, this division presents a challenge and an opportunity to grow current and new businesses with a focus on technology, high margin products and new markets.

At Polysar's Montreal plastics plant, operating assistant Francois Gratton unloads a tank truck of mineral oil, used in the manufacture of polystyrene resin.

Left: Closeup of extruded strands of polystyrene resin before they are cut into pellets for packaging.

Corporate

From left: Mark Abbott, Vice-President, Technology; Alec T. Cousins, Vice-President, Finance and Administration; Samuel J. Goldenberg, Vice-President, Personnel.

Research and Development
Polysar continues to enlarge the scope of its research and development activities at the corporate and operating levels. Last year, Polysar spent a total of $30 million on research and development activities, an increase of 22 percent over 1984.

About 300 researchers at the operations level in North America and Europe seek ways to serve existing markets better and to modify existing products for new markets. In 1984, this research network at the operating level was complemented by a new Corporate Research and Development Division in Sarnia. The group will total 45 by late 1986, and will identify new businesses for Polysar within the polymer field.

A new rubber which provides lower rolling resistance of tires, went into pilot production in Orange, Texas, and is now being tested in the marketplace.

Similarly, a new high temperature-resistant nitrile rubber, TORNAC, was produced in pilot quantities. A decision will be made in 1986 about whether to enter commercial production of this product, used in automotive engines and oil-drilling.

The Company also hopes to make commercial decisions on two new plastics in 1986: a new line of high-performance, high-impact polystyrene for computer housings, refrigerator inner linings and video cassettes; and a transparent, high-impact material for packaging and high performance molding uses.

Together with three other petrochemical companies and the University of Western Ontario, Polysar has established a cooperative Institute for Chemical Science & Technology in Sarnia. The Institute will engage in precompetitive research in areas of general value to industry, such as waste management, environmental protection, and energy conservation.

In 1986, Polysar plans a number of research initiatives to develop new products for markets such as plastic-fibre composites, ceramics, and roofing materials.

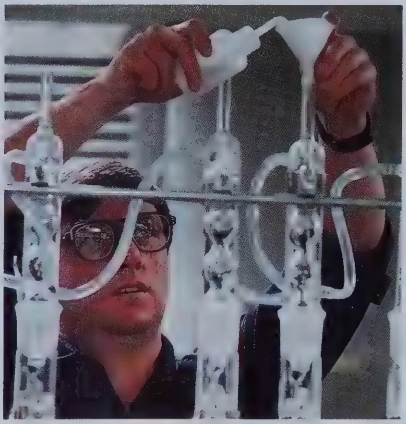
Toxicology and Safety
The Company places high priority on protecting the health and safety of its staff and the communities in which it operates. Of the many localities where the Company conducts its operations, Sarnia has recently received the greatest public and political attention. The quality of the environment in the St. Clair River Valley and the impact of the petrochemical companies in the area have been the subject of intense speculation and expressions of concern. Because of the care devoted to environmental issues over the years, and because the processes used do not have a high potential for adverse environmental impact, Polysar is confident that any negative environmental effects which the Company may have caused are minor.

This sensitivity to environmental concerns, includes occupational health, pollution control, and product safety. Polysar has implemented a clear policy on toxicology, and adherence to the policy is carefully monitored by corporate, regional, and local toxicology teams. A comprehensive policy on safety in the workplace was also issued in 1985.

Through Polysar's Operation Triple Check launched in 1984, the Company's plants worldwide were visited by a team of specialists in toxicology and safety. In June 1985, the team reported and made recommendations on methods of improving community, employee, and environmental welfare. This report was reviewed by a respected external consultant. Following a final review by senior management, all the recommendations were accepted.

In 1985, Polysar committed \$2.0 million for three capital projects to improve its ability to handle potential environmental pollutants. In Arnhem, The Netherlands, the Company commenced installation of a system to control hydrocarbon air emissions. In Sarnia, an upgraded bromine-handling system, and a pipeline between the biological oxidation waste water treatment plant and the Company's landfill site were installed.

Researcher John Van Es uses the electron microscope in his analytical work at the Company's Sarnia research centre.



The oil and grease content of process water is checked by chemist David Sawchuk at Sarnia plant's waste water treatment laboratory.

People
Last year's amalgamation of Polysar and Petrosar linked two organizations with different practices but similar corporate philosophies. Thanks to the efforts of all employees, the two companies were joined together without any loss of effectiveness. Instrumental in bringing about this merger was a team of employees from both organizations who worked to smooth transitional problems.

The Company places high priority on attracting and retaining quality staff and providing its employees with a challenging and rewarding work environment. During 1985, as part of an ongoing programme, Polysar conducted a climate survey of its Canadian employees and of the majority of its American employees to gauge their attitudes to Company policies and management practices. The results of this survey are providing opportunities for Polysar and its employees to improve overall performance and effectiveness.

Employee development is an important feature of Polysar's management philosophy. While much development takes place as a result of promotion and job change, a renewed emphasis on developmental training and education began in 1985 and will be pursued in 1986.

In 1985, a variable compensation package (first tested in 1984) was introduced for all North American salaried employees and is now partly in place in Europe. The programme provides a bonus if corporate financial targets are met and a further bonus if the employee's own profit centre targets are met. Thus the programme is founded upon the two fundamental principles of ability to pay and pay for performance. In its first year of full implementation, the programme did not yield results as financial targets were not achieved. Nevertheless, it is in place for 1986 and will provide opportunities for achievement and gain.

Chief Financial Officer's Report

The major changes initiated at Polysar during 1985 had significant effects on the Company's financial statements. In an attempt to better explain the effects of these changes, the financial review section of this year's report has been integrated directly into the financial statements. We believe this format will prove to be of assistance in giving readers a more complete understanding of Polysar's financial performance and position.

Acquisition of Petrosar

The May 31st, 1985 purchase by the Company of all outstanding Petrosar stock not already held had a major effect on Polysar's financial statements.

Upon acquiring complete control, Polysar embarked on a preplanned two-year programme aimed at restoring Petrosar to profitability by 1987. Recent external economic factors, principally lower crude oil prices, will accelerate the restoration of satisfactory profitability in this Basic Petrochemicals sector.

The major factors contributing to continuing losses at Petrosar during recent years were: the increasing cost of Petrosar's feedstocks; low selling prices for its major products; a lack of flexibility in its processing capability; and the failure of major customers to perform under long-term supply contracts for fuel products, for which Petrosar is seeking damages.

Faced with this situation and the need to protect its principal source of key feedstocks for its Sarnia rubber operation, the Company, in conjunction with other shareholders, developed a conversion plan aimed at restoring Petrosar to profitability at a capital cost of up to $100 million. Continuing ownership by three shareholders driven by different market forces was an impediment to the successful implementation of that program. Accordingly, prior to the June 1st, 1985 deregulation of crude oil prices in

Canada, Polysar concluded a series of agreements that provided for the extension of shareholders' ethylene contracts to 1994, and the injection into the Company of preferred share financing in exchange for assuming the benefits and obligations of 100% ownership.

Up to May 31st, 1985, 52% of Petrosar's losses or $17.2 million were attributable to Union Carbide Canada Ltd. and DuPont Canada Inc. From June 1st, 1985, Petrosar Ltd. became a wholly-owned subsidiary of Polysar and the results of its operations have been fully consolidated in Polysar's financial statements.

On a full year basis, the inclusion of Petrosar adds approximately 47% to consolidated sales revenue. However, because a significant portion of a refinery operation's sales revenue represents the passing through of feedstock costs, added value levels are lower than is typical for Polysar's other operations. As a result, the inclusion of Petrosar's results has substantially altered Polysar's traditional sales margin ratios. Thus, caution needs to be exercised when comparing 1985 financial statements with those of previous years.

The financial restructuring associated with the acquisition materially strengthened Polysar's capital structure. (See table on Page 21.) With the reduction of Petrosar's debt by over $200 million, improved debt arrangements were concluded with lenders. As a result, the Company's financial position will be protected during the 1985-1986 transition period, despite non-performing contracts that are the subject of current litigation (see note 11). The Company's position in these actions is supported confidently by management and by legal counsel, although the timing of recoveries has to be regarded as uncertain.

The volatility of commodity and financial markets early in 1986 is a reminder of Polysar's sensitivity to the external environment. A change of 1 cent US/lb. in the market prices of ethylene and propylene affects Polysar's operating cash flow by $17 million annually. Similarly, each US $1.00 per barrel change in the price of crude oil influences free cash flow (the amount available for debt repayment and capital expenditures after deducting all expenses) by $8 million annually. Recent changes have been favourable to Polysar, and if continued, will have a positive and welcome effect on 1986 results. However, it is the ability to manage margins over the long term that is the focus of Polysar's planning.

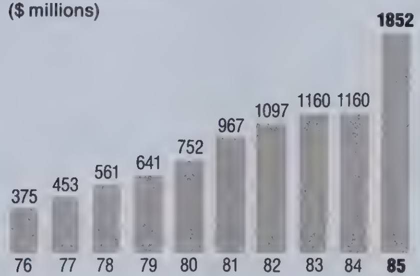
The programme to restore the Petrosar operations to profitability is on schedule and all essential components are expected to be in place by the third quarter of 1986. The losses which have characterized those operations in recent years are expected to be eliminated beyond that point through actions that are within the control of management.

The recently announced decision to close Polysar's styrene-butadiene rubber manufacturing facilities in Sarnia is another demonstration of the determination to eliminate unprofitable activities.

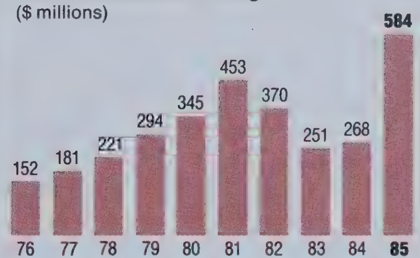
There is a well recognized need to continue to meet planned financial objectives before relaxing constraints on expenditures. However, this will not restrict Polysar programmes in the areas of technology, quality and geographic expansion in 1986. A more favourable economic environment, brought about by the current decline in crude oil prices, will serve to assist Polysar in meeting its performance objectives for the year. This environment will also provide a secure basis for the implementation of the Company's long term strategy.

Gross profit percentage

Capital employed
($ millions)



Working Capital
Net of Cash and Borrowings
($ millions)



Consolidated Balance Sheet

Polysar Limited
December 31

Assets	1985 ($ thousands)	1984 ($ thousands)
Current		
Cash and short-term investments	**11,330**	13,770
Accounts receivable	**447,559**	201,573
Inventories (Note 2)	**401,986**	242,038
	860,875	457,381
Investments		
Petrosar Limited (Note 3)	**–**	89,469
Other	**42,119**	43,216
Property, Plant and Equipment (Note 4)	**1,352,693**	748,156
Deferred Charges and Other Assets (Note 5)	**175,516**	130,430
	2,431,203	1,468,652

Liabilities	1985	1984
Current		
Short-term loans (Note 6)	**273,397**	106,895
Accounts payable	**247,133**	167,097
Income and other taxes payable	**12,719**	6,795
Dividends payable	**5,710**	1,750
Long-term debt due within one year	**40,018**	26,077
	578,977	308,614
Long-term Debt (Note 7)	**733,225**	644,320
Deferred Income Taxes	**17,750**	32,455
Minority Interest (Note 8)	**325,315**	85,268
Shareholders' Equity		
Capital Stock (Note 9)	**616,441**	214,341
Retained Earnings	**162,439**	195,122
Cumulative Translation Adjustments	**(2,944)**	(11,468)
	775,936	397,995
	2,431,203	1,468,652

On behalf of the Board

R.S. Dudley
Director

R.H. Marchessault
Director

Financial Management

The financial restructuring associated with the Petrosar acquisition materially strengthened the capital structure of Polysar. Capital employed increased by 60% to $1.9 billion at year end 1985, of which $776 million is represented by preferred share capital—the major part of which does not begin to fall due for maturity until 1992—and common equity.

The major year-to-year changes in the Company's balance sheet that resulted from acquiring all of Petrosar included:

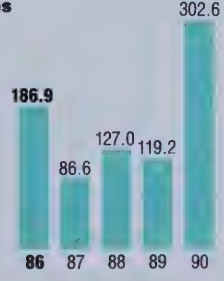
- The inclusion within minority interest of $240 million of Class A Preference share issued in prior years by Petrosar. The maturity dates of these shares have been extended to 1989 and 1990.
- The issue of $187.8 million of non-voting redeemable preferred shares to DuPont Canada and Union Carbide Canada in exchange for the shares of Petrosar held by those two companies (See Note 9).
- The issue of $208 million in preferred shares to CDC in exchange for cash. These funds were used to reduce Petrosar's debt (including retirement of $60 million in Petrosar Class A preference shares, bringing the total outstanding to the current $240 million).
- Inclusion of Petrosar's assets on a fully consolidated basis, which contributed to an 81% increase in property, plant and equipment during 1985 over the prior year. In previous years, the Petrosar investment was shown as an equity investment.
- Significant increases in both current assets and liabilities. This is also due to the full consolidation of Petrosar's assets and liabilities on the Polysar balance sheet. Despite the increases, Polysar's current ratio was maintained at 1.5:1 at the end of 1985, the same as a year earlier. Combining the two companies' statements contributed to an almost doubling of working capital to $282 million at the end of 1985 from $149 million at the end of 1984.

Debt Management

Apart from the rearrangements associated with the acquisition of Petrosar, no significant new debt was contracted by Polysar in 1985. Drawdowns of existing credit lines were sufficient to meet all needs. During the year, maturity provisions of a major credit facility were revised in order to smooth the profile of the Company's annual debt repayments. In the three years 1986-1988, a total of $400 million is due for repayment under current debt and term preferred share obligations (see chart).

At December 31st, 1984, on a combined Polysar and Petrosar basis, the corresponding sum of obligations due by 1988 was $590 million. The Company's debt-to-equity ratio at December 31st, 1985 was 1.4:1.0 compared with 1.8:1.0 at the end of the previous year. A key strategic objective is to reduce that ratio to better than 1:1.

Debt and debt equivalent maturities
($ millions)



Total capital employed comprises the following:

	1985 %	1984 %
Long-term Debt	39.6	55.6
Deferred Income Tax	0.1	2.8
Minority Interest	17.6	7.3
Shareholders' Equity	41.9	34.3
	100.0	100.0

Consolidated Statement of Income

Polysar Limited
Year ended December 31

	1985 ($ thousands)	1984 ($ thousands)
Revenues		
Sales	**1,840,719**	1,408,406
Other income	**27,319**	7,806
	1,868,038	1,416,212
Costs and Expenses		
Cost of sales	**1,647,139**	1,162,524
Selling and administrative	**90,897**	72,382
Research and development	**29,872**	24,513
Interest on long-term debt	**74,841**	79,880
Other interest	**23,836**	15,832
Interest capitalized	**(180)**	(23,063)
	1,866,405	1,332,068
Income Before Taxes	**1,633**	84,144
Income taxes (reduction) (Note 10)	**(29,200)**	18,000
	30,833	66,144
Loss from investment in Petrosar prior to consolidation (Note 3)	**(15,854)**	(26,772)
Income from other investments	**2,536**	2,801
Minority interest	**(17,393)**	(6,292)
Net Income	**122**	35,881
Net Income (Loss) per Common Share	**($ 0.52)**	$ 1.13

Consolidated Statement of Retained Earnings

Polysar Limited
Year ended December 31

	1985 ($ thousands)	1984 ($ thousands)
Retained Earnings, Beginning of Year	**195,122**	172,927
Net income	**122**	35,881
	195,244	208,808
Dividends		
–First preferred shares	**6,858**	6,857
–Second preferred shares	**6,656**	–
–Common shares	**19,291**	6,829
	32,805	13,686
Retained Earnings, End of Year	**162,439**	195,122

Analysis of Results

Earnings in the first two quarters of 1985 were at satisfactory levels, with strong performances turned in by the rubber and latex businesses. This was in the face of expensing for the full year costs associated with major new facilities, which will only provide full benefits in the future as utilization and efficiency of operations improve.

The historical quarterly profile of earnings demonstrates a tendency for profitability to decline during the second half of the year. This trend was aggravated in 1985 by some decline in volumes in the rubber business and the impact of absorbing all of Petrosar's losses for the last seven months of 1985.

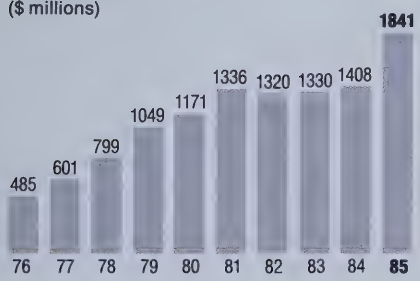
Major increases in revenues and costs in comparison to 1984 relate primarily to the full consolidation of Petrosar from May 31st, 1985. Sales of $1840.7 million include $377.9 million in third party sales by Petrosar. The increase in Other Income is due to inclusion of amounts booked from May 31st, 1985, relating to the non-performing contract with Ontario Hydro (See Note 11). The reduction of gross profit (sales minus cost of sales) as a percentage of revenue from 17.5% in 1984 to 10.5% in 1985 is attributable to low margins in Petrosar's operations. Ethylene prices were depressed to the point where margins were not fully covering fixed costs. Margins over variable costs on Polysar's rubber and latex business were substantially unchanged from 1984.

The plan to restore the Petrosar operations to profitability is being implemented on schedule. An important element of this plan is to reduce feedstocks costs for the petrochemical operation, to be achieved in part by converting the Corunna refinery to permit the utilization of natural gas liquids for up to 40% of feedstock requirements.

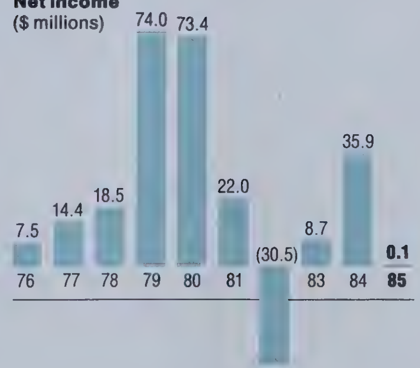
Selling and administrative expenses were reduced to 4.9% of 1985 revenue from 5.1% in the previous year. Part of the reason for this decrease is the continuing impact of cost control measures throughout the Company.

The downstream operations experienced mixed results in comparison to 1984. Outside North America, the rubber business generated record gross profits in 1985; the latex business achieved similar results globally. Within North America, both rubber and plastics operations experienced reduced profitability in comparison to the previous year. Affecting the North American rubber operations was declining production in the tire industry, as well as increased depreciation and operating costs associated with a full year of operations of the new Sarnia based butyl plant, which began production in July, 1984. The North American plastics business continued to suffer from reduced margins due to industry overcapacity.

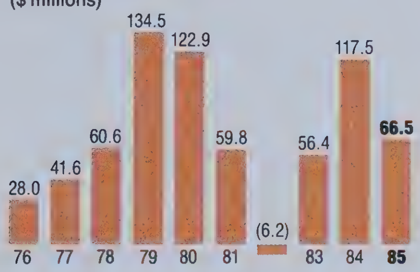
Sales revenue
($ millions)



Net income
($ millions)



Cash flow from operations
($ millions)



The programme to develop technically advanced products continued in 1985, with a new R&D facility being established at Leominster, Mass. This programme will add to the benefits flowing from product integration with the Company's upstream Basic Petrochemicals business. Total Company R&D expenditures increased by 21.9% during 1985 over the prior year to $29.9 million and represent 7% of value added by the Company to its raw material and energy costs. This ratio of R&D to total value added is more appropriate than the more widely-used ratio of R&D to sales when an organization, such as Polysar, has a large proportion of its sales value represented by raw material and energy costs.

The year-to-year decline in income before tax reflects both the effect of consolidating the results of Petrosar and the expensing of interest during 1985 on debt associated with the Company's new Sarnia-based butyl plant. The latter causes the sharp reduction in interest capitalized during 1985 in comparison to the previous year.

Total interest expense of $98.7 million represented 5.4% of sales in 1985. After taking into account the period when the cost of servicing Petrosar's debt was not consolidated, the average interest rate paid was 10.3%. Canadian prime averaged 10.6% during the year on the same basis.

Recoveries of deferred taxes resulted from a combination of losses in high tax jurisdictions and profits in subsidiary operations in geographies with lower rates of tax. (See Note10).

The increase in minority interest expense is largely related to the inclusion of dividends on Petrosar's Preferred A shares in this classification.

Foreign Exchange

The last year has seen a special volatility in foreign currency markets. In the first quarter of 1985, the US dollar traded at record high levels in relation to other major trading currencies. The speed and magnitude of its subsequent decline, tracked by the Canadian dollar, represented a major hazard to an international company. The potential for significant impact on Polysar's income statement is demonstrated by the table below.

Polysar maintains the policy, as far as is possible, of matching its total outstanding assets with corresponding liabilities in the appropriate currency at all times. In spite of the violent movement in rates of exchange during 1985, this policy enabled the Company to insulate itself from its large exposed net asset position. The Company's cumulative currency translation adjustment reduced shareholder's equity at the end of 1985 by $2.9 million, compared to $11.5 million a year earlier.

	Approximate Value of Annual Billings in Millions of Cdn $	% Change During 1985 in the Value of the Stated Currency against the Cdn $
US $	1,000	+ 6%
D Marks	70	+ 37%
Yen	45	+ 33%
Pound Sterling	55	+ 32%
French Francs	85	+ 36%

Consolidated Statement Of Changes in Financial Position

Total capital spending in 1985 of $54.6 million consisted primarily of sustaining expenditures needed to improve the efficiency and safety of existing plants. Approved spending at the end of 1985 for capital expenditures in 1986 amounted to $43 million, of which $22 million is designated for the conversion of the Petrosar refinery.

The statement of changes for 1985 shows the elements of the transactions which resulted in Polysar acquiring all of Petrosar. Cash requirements increased substantially, both due to the cost of the purchase and the greater working capital requirements of the enlarged Company. As well, dividend payments increased, reflecting in part the larger number of preferred shares outstanding during 1985 and increased dividends on common shares associated with cash received from the sale of Scientific Research Tax Credits in Canada.

A reduced cash flow from operations, $66.5 million in 1985 as against $117.5 million in 1984, was foreseen as one of the most significant impacts during this first phase of the transition plan involving Petrosar. Increased cash demands were met by financing activities.

A substantially improved level of cash flow from operations is expected to commence in the second half of 1986 in response to plans referred to earlier. The capital expenditures required to obtain that improvement are below original estimates. The 40% reduction in the price of crude oil early in 1986 will accelerate the improvement from operations, and will release cash presently invested in working capital. The outlook for 1986, therefore, is now seen as being considerably more favourable than at the time of the Petrosar acquisition.

Alec T. Cousins
Vice-President Finance
and Administration
March 15, 1986

Consolidated Statement of Changes in Financial Position

Polysar Limited
Year ended December 31

	1985 ($ thousands)	1984 ($ thousands)
Cash Requirements		
Capital spending	**54,648**	57,152
Acquisition of additional interest in Petrosar	**138,400**	–
Reduction in obligation to former Petrosar shareholders	**49,400**	–
Prepayments against future deliveries from Petrosar	**–**	45,600
Dividends	**32,805**	13,686
Redemption of subsidiary preferred shares	**60,000**	–
Increase in working capital, net of cash and borrowings	**102,359**	17,146
	437,612	133,584
Sources of Cash		
Operations		
Net income	**122**	35,881
Depreciation	**65,260**	42,795
Amortization	**27,390**	11,141
Deferred tax (reduction) provision	**(34,365)**	5,528
Loss from investments	**13,318**	23,971
Other	**(5,215)**	(1,839)
	66,510	117,477
Proceeds from sale of investments	**10,608**	–
Issue of preferred shares	**395,800**	–
Issue of common shares	**6,300**	–
Other	**7,513**	5,876
	486,731	123,353
Increase (decrease) in net borrowings	**(49,119)**	10,231

Management's Report to the Shareholders

The management of Polysar Limited is responsible for the integrity of all information and representations included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted Canadian and international historical cost accounting principles consistently applied, and reflect estimates by management where necessary. The Company's significant accounting policies are summarized in the notes to the consolidated financial statements. Financial information contained in this Annual Report is consistent with the financial statements. The Board of Directors, through the Audit Committee, which is composed solely of outside directors, oversees management's discharge of its financial reporting responsibilities.

Independent auditors, Peat, Marwick, Mitchell & Co., provide an objective, independent review of the Company's reported operating results and financial position. The independent auditors have full access to the Audit Committee.

R. S. Dudley

R. S. Dudley
President and
Chief Executive Officer

A. T. Cousins

A. T. Cousins
Vice-President Finance
and Administration

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Polysar Limited as at December 31, 1985 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements, appearing on pages 20, 22 and 25, present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants
Toronto, Canada
February 14, 1986

Notes to Consolidated Financial Statements

Polysar Limited
Year ended December 31, 1985

1. Summary of Significant Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in Canada. The principles followed are also in conformity with the historical cost accounting standards of the International Accounting Standards Committee.

Principles of Consolidation

The consolidated financial statements incorporate the financial position, operating results and changes in financial position of the Company and its subsidiaries. Companies which are not subsidiaries and over which the Company has significant influence, are accounted for by the equity method. Other investments are carried at cost or written-down value.

Foreign Currency Translation

The accounts of foreign operations which are deemed to be self-sustaining are translated using the current rate method. Under this method, all assets and liabilities are translated into Canadian dollars at the rates of exchange on the balance sheet date; revenues and expenses are translated at rates of exchange in effect during the year. Translation gains or losses arising from changes in exchange rates are deferred in a separate component of shareholders' equity until realized by a reduction in the Company's net investment in the foreign subsidiary.

Integrated foreign operations and subsidiaries operating in highly inflationary economies are translated using the temporal method, with translation gains or losses included in income. Under this method, current assets and liabilities, as well as long-term monetary assets and liabilities, are translated at the rates of exchange on the balance sheet date. Other balance sheet items are translated at the rates prevailing on the respective transaction dates.

The accounting policy recognizes that long-term U.S. dollar denominated liabilities of the reporting entity are hedged effectively as repayment of such liabilities will be made from future U.S. dollar revenue streams. Adjustments arising from translation of such hedged liabilities are deferred and deducted from long-term debt.

Inventories

Inventories are valued at the lower of FIFO (first-in, first-out) cost and net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided from the date assets are capable of commercial production, calculated on the straight-line method based on their estimated useful lives. Fixed asset additions, including related interest costs incurred during major plant construction, and renewals and betterments which extend the economic life of plant and equipment are capitalized. Maintenance and repairs are charged to income as incurred.

On disposal of fixed assets, the related costs and accumulated depreciation are removed from the accounts and any resultant gain or loss is included in income.

Pre-production expenses of major new projects are deferred and charged to income on the straight-line method over varying periods not exceeding ten years from commencement of commercial production.

Goodwill

Goodwill is amortized using the straight-line method over varying periods not exceeding 40 years.

Income Taxes

Income taxes are provided on the tax allocation basis. No provision has been made for income tax relief in respect of expenses recorded in the accounts where it is uncertain when, if ever, the relevant company would have sufficient taxable income to absorb such items for tax purposes.

On a continuing basis, some Polysar companies are incurring losses while others are realizing the tax benefits of previous losses. On a consolidated basis, these recurring tax benefits are not considered to be extraordinary in nature and accordingly, are reflected as reductions of current income taxes when realized.

Pensions

The Company has a number of defined benefit pension plans. Pension costs are computed on the basis of accepted actuarial methods and include both current service costs and the amortization of past service costs over periods of 15 to 30 years. Reductions in pension expense arising from realized surpluses amounted to $6,700,000 in 1985. At December 31, 1985 the Company's pension plans are in the aggregate fully funded and in a surplus position.

Net Income (Loss) Per Common Share

Net income (loss) per common share is calculated using the weighted average number of shares outstanding during the year after providing for all dividends on preferred shares.

Comparative Figures

Comparative prior year figures have been reclassified to conform with classifications adopted in 1985.

2. Inventories	**1985** ($ thousands)	1984 ($ thousands)
Raw materials	**162,036**	82,144
Finished products	**205,864**	139,584
Supplies	**34,086**	20,310
	401,986	242,038

3. Acquisition of Petrosar Limited

On May 31, 1985, the Company issued 5,536,000 third preferred shares for a stated value of $138,400,000 in exchange for the common and preferred shares of Petrosar Limited held by DuPont Canada Inc. and Union Carbide Canada Limited. The Company acquired the common shares held by Canada Development Corporation for nominal consideration.

The results of operations of Petrosar Limited from the acquisition date have been consolidated in the Company's financial statements; prior to that date, the Company's investment in Petrosar was accounted for using the equity method. The acquisition is summarized as follows:

Net assets acquired, at fair value:	($ thousands)
Working capital	(6,479)
Property, plant and equipment	596,584
Other long-term assets	44,404
Goodwill	64,466
Long-term debt	(75,000)
Prepayments for future deliveries	(95,000)
Deferred taxes	(16,960)
Minority interest	(300,000)
	212,015
Less: Equity value at date of acquisition	(73,615)
	138,400
Consideration, given at assigned value: Third Preferred Shares	138,400

4. Property, Plant and Equipment	**1985** ($ thousands)	1984 ($ thousands)
Land	**28,173**	20,172
Plant and equipment	**1,978,807**	1,146,687
Accumulated depreciation	**(654,287)**	(418,703)
	1,352,693	748,156

5. Deferred Charges and Other Assets	**1985** ($ thousands)	1984 ($ thousands)
Preproduction and deferred development expenses	**77,728**	55,235
Prepayments against future deliveries from Petrosar	**–**	45,600
Goodwill	**63,549**	1,875
Long-term receivables	**4,469**	4,528
Other	**29,770**	23,192
	175,516	130,430

6. Short-term Loans

Short-term loans of Petrosar totalling $138,612,000 are secured by inventory, accounts receivable and by a demand fixed and floating charge debenture on all assets of Petrosar (reference is made to Note 8).

7. Long-term Debt

	1985 ($ thousands)	1984 ($ thousands)
Canadian Dollars		
7.5% sinking fund debentures, Series A, repayable 1986 through 1987	**5,194**	5,809
9% sinking fund debentures, Series B, repayable 1987 through 1993	**23,670**	25,276
Floating rate multi-currency revolving credit and term loan facility, currently bearing interest at 10.57%, repayable 1987 through 1992	**245,225**	273,590
Floating rate term loan, currently bearing interest at 10.63%, repayable 1989 through 1998	**30,000**	24,714
Floating rate term loan, currently bearing interest at 9.5%, due 1986	**50,000**	50,000
Floating rate term loan, currently bearing interest at 10%, repayable 1986 through 1991	**54,720**	–
United States Dollars		
9.5% debentures, Series D, due 1986	**68,543**	64,787
Floating rate multi-currency term loan, currently bearing interest at 8.88%, due 1988	**27,960**	26,428
Floating rate term loans, currently bearing interest at an average rate of 9.23%, repayable 1986 through 1988	**71,581**	93,028
Notes payable currently bearing interest at an average rate of 6.84%, repayable 1986 through 2003	**16,652**	10,391
Floating rate multi-currency revolving credit and term loan facility, currently bearing interest at 10.94% repayable 1987 through 1992	**67,104**	47,570
Other Currencies		
Floating rate multi-currency revolving credit and term loan facility, currently bearing interest at 6.25%, repayable 1987 through 1992	**53,901**	–
Fixed and floating rate term loans, currently bearing interest at an average rate of 12.57%, repayable 1986 through 1999	**77,412**	59,908
Other non-current liabilities	**15,184**	13,998
	807,146	695,499
Long-term debt due within one year	**40,018**	26,077
Long-term debt at current exchange rates	**767,128**	669,422
Revenue hedge adjustments	**(33,903)**	(25,102)
	733,225	644,320

Sinking fund requirements and the long-term debt due in each of the next five fiscal years, expressed in millions, are as follows: 1986–$158.6; 1987–$58.3; 1988–$98.6; 1989–$59.2; 1990–$122.6.

Obligations totalling $118,543,000, which are included in 1986 repayments, are classified as long-term debt. It is anticipated that such payments will be made from the proceeds of refinancing using existing long-term lines of credit rather than from current funds.

8. Minority Interest	1985 ($ thousands)	1984 ($ thousands)
Preferred shares of subsidiary companies:		
Polysar Holdings Limited	**85,000**	85,000
Petrosar Limited	**240,000**	–
Other	**315**	268
	325,315	85,268

The preferred shares issued by Polysar Holdings Limited are redeemable and have a cumulative floating rate dividend equal to 1.25% plus one-half of the average daily prime rate of certain Canadian banks. Redemptions are required to be made in equal annual amounts from 1986 to 1988 inclusive. These shares are redeemable at the option of the holders; however the holders have agreed not to require redemption except in certain specified circumstances, including the occurrence of any event which, in the reasonable opinion of the holders of at least a majority of these shares, materially adversely affects the financial condition of certain subsidiaries or the Company. In the event of failure by Polysar Holdings Limited to redeem, the holders may require Polysar Limited to purchase all outstanding shares for their aggregate stated value.

Petrosar Limited's Class A Preference shares are redeemable, (at $100 each) non-voting and rank senior to all other Petrosar shares. They are not redeemable at the option of the holder except in certain specific events. Cumulative dividends at an annual rate of 1.35% plus 52% of the average daily prime rate of certain Canadian banks are payable quarterly. On December 31, 1985, Petrosar Limited redeemed $60,000,000 of these shares. Redemptions of $60,000,000 in December 1989 and $180,000,000 in December 1990 are required. The provisions of these shares and the related share subscription agreement restrict the payment of dividends, the redemption of all other shares and modification to Petrosar's long-term take-or-pay contracts. In the event of failure by Petrosar Limited to pay dividends or meet redemption requirements, the holder may require Polysar Limited to purchase all outstanding shares for their aggregate stated value. Short-term loans and the Class A Preference shares of Petrosar are secured by a $200,000,000 demand fixed and floating charge debenture on all assets of Petrosar.

9. Capital Stock	1985 ($ thousands)	1984 ($ thousands)
First Preferred Shares, no par value; issuable in series (authorized 9,769,675 shares); 15.5% cumulative, redeemable, non-voting shares Series A (issued and fully paid 1,769,675 shares)	**44,241**	44,241
Second Preferred Shares, no par value; (authorized 10,000,000 shares) floating rate cumulative, redeemable, non-voting shares (issued and fully paid 8,320,000 shares)	**208,000**	–
Third Preferred Shares, no par value; (authorized 15,000,000 shares) floating rate, redeemable, non-voting shares (issued and fully paid 7,512,000 shares)	**187,800**	–
Common Shares, no par value (authorized 30,000,000 shares; issued and fully paid 26,621,886 shares in 1985; 25,671,100 shares in 1984)	**176,400**	170,100
Total Capital Stock	**616,441**	214,341

During each month, the Company is obligated to purchase for cancellation 10,000 first preferred shares if, and to the extent, they are available for purchase at prices not exceeding $25 per share. The Company is further obligated to repurchase the first preferred shares July 1, 1987 if, and to the extent, they are available for purchase at a price of $25 per share. First preferred shares are redeemable at the option of the Company at a redemption price of $27 per share reducing to $25 per share by July 1, 1988. There are no voting rights attached to the first preferred shares unless dividends are eight quarters in arrears.

On May 31, 1985, 8,320,000 second preferred shares were issued to the Company's parent, Canada Development Corporation, for $208,000,000. The second preferred shares bear a cumulative floating rate dividend equal to 55% of the average daily prime rate of a Canadian bank reduced by 1%. The floating rate dividends are payable quarterly and are subject to a dividend rate minimum of 5% and a maximum of 7%. The shares are redeemable at any time at the option of the Company at a redemption price of $25 per share and are subject to an annual mandatory redemption of 1,268,000 shares commencing January 1, 1992 through to 1996 with 1,260,000 redeemable January 1, 1997 and the balance of the shares outstanding redeemable January 1, 1998. There are no voting rights attached to the second preferred shares.

On May 31, 1985, the Company issued 5,536,000 third preferred shares for a stated value of $138,400,000 to acquire the shares of Petrosar Limited held by DuPont Canada Inc., Union Carbide Canada Limited and Electric Furnace Products Company Limited (an affiliate of Union Carbide). An additional 1,976,000 third preferred shares were issued to the former shareholders of Petrosar Limited in repayment of a $49,400,000 obligation in respect of future product deliveries. The third preferred shares bear a floating rate cash or stock dividend at the Company's option equal to the lower of 55% of the average daily prime rate of a Canadian bank or 8%. Dividends are not payable unless annual net income exceeds the higher of $40,000,000 or 8.5% of shareholder's equity at the end of the year. Subject to meeting this requirement the dividends are cumulative. The shares are subject to a mandatory redemption at $25 per share of 2,356,000 shares on January 1, 1995 and the balance in approximately equal amounts from 1996 through 2010 inclusive. Under the terms of the shares a portion of the third preferred shares are subject to earlier redemption under certain conditions. There are no voting rights attached to the third preferred shares.

On September 23, 1985, the Company issued 950,786 common shares to its parent, Canada Development Corporation, for $6,300,001.

10. Income Taxes

The provision for income taxes in the consolidated statement of income reflects an income tax rate which differs from the Canadian corporate tax rate, for the following reasons:

	1985 ($ thousands)	1984 ($ thousands)
Net income before taxes, losses from investments and minority interest	**1,633**	84,144
Income taxes based on combined basic Canadian federal and provincial rate of 51%	**833**	42,913
Increase (decrease) in taxes resulting from:		
Foreign subsidiaries taxed at different rates	**(28,974)**	(31,841)
Effect of sale of scientific research tax credits	**2,356**	4,270
Other	**(3,415)**	2,658
Actual income tax provision (reduction)	**(29,200)**	18,000
Current income tax	**5,165**	12,472
Deferred income tax (reduction)	**(34,365)**	5,528
	(29,200)	18,000

11. Contingencies

Ontario Hydro:
The Company's wholly-owned subsidiary, Petrosar has taken action against Ontario Hydro to recover damages of $98,400,000 arising from the breach in 1981 and 1982 of a sales agreement for atmospheric residual fuel oil. Ontario Hydro has filed a counterclaim for refund of approximately $50,000,000 in damages paid in 1980, 1981 and 1982. Action has not yet been taken in respect of damages for the period January 1, 1983 to December 31, 1985.

In the opinion of management and legal counsel, Petrosar will be successful in recovering at least $116,500,000 for the period January 1, 1981 to December 31, 1985 which has been recorded in the accounts. Any settlement differing from that recorded in the accounts will be reflected in the accounts in the year in which the settlement occurs.

Union Gas:
Petrosar has an agreement with Union Gas Limited (''Union'') for the sale of synthetic natural gas through to April 1993. In May 1984, with updates to December 1985, Union submitted claims for $98,000,000 disputing amounts paid under the contract and, for the period to December 31, 1985, offset $41,000,000 of these claims against payments otherwise due. This amount is included in accounts receivable. The Company has instituted legal action to recover all funds withheld.

In the opinion of management and legal counsel, Petrosar's action has merit and the prospects of successfully opposing the claims of Union which involve the most significant portion of the amount claimed are favourable. Any settlement differing from that recorded in the accounts will be reflected in the accounts in the year in which the settlement occurs.

12. Additional Information

Due from Parent
At December 31, 1985, the Company had a net current receivable of $9,979,000 from its parent, Canada Development Corporation ($12,400,000 at December 31, 1984).

Geographic Segmented Information
The Company conducts its global business through manufacturing operations in Canada, the United States and Europe and sales and distribution organizations in many countries. The sales of the respective geographic area segments are those supported by identifiable assets in the segment and comprise sales both within the segment and into other market areas. Transfers from Canada to the USA represent a substantial portion of the intersegment sales out of Canada and these are based primarily on a marketing allowance. Other intersegment sales are based on the differential between plant costs and market selling prices. Operating income excludes depreciation and amortization. Recent inflationary periods combined with variations in the timing of major capital spending programs in the respective jurisdictions tend to distort geographical operating performance in capital intensive industries. As a result operating income before charges for depreciation and amortization is believed to be a better indication of segment operating profitability. Segment operating results should not be regarded as an absolute indication of comparative profitability. The Company is considered to operate in a single industry, petrochemicals, through its manufacture and sale of petrochemical products.

Geographic Segments Year ended December 31, 1985 ($ thousands)	Canada	U.S.A.	Europe	Eliminations	Consolidated
Sales					
–3rd Party	725,611	586,770	528,338	–	1,840,719
–intersegment	368,969	25,170	31,641	(425,780)	–
Total	1,094,580	611,940	559,979	(425,780)	1,840,719
Operating Income	73,921	25,537	86,562	17,156	203,176
Depreciation and amortization					(92,650)
Corporate expense					(11,983)
Interest expense–net					(96,910)
Loss from equity investments					(13,318)
Minority interest					(17,393)
Income tax reduction					29,200
Net income					122
Identifiable assets	1,889,779	217,249	283,557	(3,724)	2,386,861
Corporate assets					2,223
Investments					42,119
Total assets					2,431,203

Geographic Segments Year ended December 31, 1984 ($ thousands)	Canada	U.S.A.	Europe	Eliminations	Consolidated
Sales					
–3rd Party	352,495	573,676	482,235	–	1,408,406
–intersegment	346,941	23,813	28,925	(399,679)	–
Total	699,436	597,489	511,160	(399,679)	1,408,406
Operating Income	91,960	18,255	111,047	(1,822)	219,440
Depreciation and amortization					(53,936)
Corporate expense					(11,370)
Interest expense–net					(69,990)
Loss from equity investments					(23,971)
Minority interest					(6,292)
Income taxes					(18,000)
Net income					35,881
Identifiable assets	900,870	206,459	231,204	(5,239)	1,333,294
Corporate assets					2,673
Investments					132,685
Total assets					1,468,652

Polysar Limited Ten Year Review

(Dollars in millions except amounts per common share)

Operations	**1985**	1984	1983	1982	1981	1980	1979	1978	1977	1976
Sales and Other Income	**1,868.0**	1,416.2	1,336.9	1,328.7	1,347.4	1,180.6	1,066.9	807.3	609.4	488.9
Depreciation	**65.3**	42.8	33.3	41.7	35.5	29.2	25.6	25.7	26.9	18.9
Research and Development Expense	**29.9**	24.5	23.3	27.1	22.9	19.5	15.9	13.7	10.8	8.5
Interest	**98.5**	72.6	54.5	60.0	50.2	37.1	31.5	28.3	21.0	14.9
Income Taxes (Reduction)	**(29.2)**	18.0	(9.7)	(22.6)	10.5	26.3	32.7	11.5	7.5	4.2
Equity Income (Loss)	**(13.3)**	(24.0)	(20.4)	0.8	3.8	3.3	(5.9)	(8.2)	1.0	(0.5)
Minority Interest	**17.4**	6.3	5.7	7.9	8.7	7.0	6.7	5.2	0.7	–
Net Income (Loss)	**0.1**	35.9	8.7	(30.5)	22.0	73.4	74.0	18.5	14.4	7.5
Preferred Dividends	**13.5**	6.9	6.9	6.2	5.1	7.7	7.7	7.7	6.0	4.8
Cash Flow	**66.5**	117.5	56.4	(6.2)	59.8	122.9	134.5	60.6	41.6	28.0
Financial										
Working Capital	**281.9**	148.8	156.2	190.3	232.4	270.0	250.5	200.8	99.1	77.8
–ratio	**1.5:1**	1.5:1	1.5:1	1.6:1	1.5:1	1.9:1	1.9:1	2.0:1	1.5:1	1.5:1
Capital Spending	**54.6**	57.2	144.2	207.0	215.9	92.5	59.8	38.8	46.5	77.2
Total Assets	**2,431.2**	1,468.7	1,453.0	1,438.3	1,402.5	1,044.1	909.9	766.1	646.4	530.5
Long-term Debt	**733.2**	644.3	660.2	579.4	427.0	228.8	203.1	205.1	191.8	160.6
Minority Interest	**325.3**	85.3	85.2	85.4	85.4	86.0	86.2	90.6	1.6	0.6
Shareholders' Equity	**775.9**	398.0	387.3	392.3	391.3	380.7	317.9	262.3	255.9	211.4
Return on Equity (%)	**–**	9.1	2.2	(7.8)	5.7	21.0	25.5	7.1	6.2	3.7
Debt to Total Capitalization (%)	**58.6**	65.5	66.4	63.1	58.6	45.7	49.6	53.0	43.8	46.6
Per Common Share*										
Net Income (Loss)	**(0.52)**	1.13	0.07	(1.45)	0.74	3.13	3.32	0.54	0.42	0.14
Cash Flow	**2.56**	4.82	2.42	0.07	3.03	6.19	7.04	3.20	2.08	1.40
Dividends	**0.74**	0.27	0.27	0.26	0.27	0.13	2.27	0.21	0.19	0.20
Shareholders' Equity	**12.95**	13.78	13.36	13.56	14.56	13.12	10.13	7.86	7.54	7.31
Other										
Salaries, Wages and Benefits	**248.6**	209.9	209.6	227.4	202.5	178.2	152.5	145.8	122.0	101.1
Number of Employees at Year-End	**6,652**	5,947	5,985	6,561	7,081	6,144	5,437	6,264	6,405	6,189

*All per common share amounts have been adjusted to reflect the ten-for-one stock split in 1979.

Polysar Group Major Companies and Locations

Canada			
Polysar Limited	World Headquarters		Sarnia, Ontario
	Rubber and Latex Operations	■▲●	Sarnia, Ontario
	Basic Petrochemicals Operations	■●	Corunna, Ontario
	Plastics Division	■	Cambridge, Ontario
		■	Montreal, Quebec
Petrosar Limited			Corunna, Ontario
United States			
Polysar Incorporated	Head Office	●	Akron, Ohio
	Latex Division	■▲●	Chattanooga, Tennessee
		■▲	Monaca, Pennsylvania
	Specialty Products Division	■●	Akron, Ohio
		■	Barberton, Ohio
		■	East Brunswick, New Jersey
	Plastics Division	■▲●	Leominster, Massachusetts
		■	Copley, Ohio
	Rubber Technical Centre	▲	Stow, Ohio
Polysar Gulf Coast Inc.		■	Orange, Texas
Europe			
Polysar International S.A.	Head Office	●	Fribourg, Switzerland
Polysar Financial Services S.A.			Fribourg, Switzerland
Polysar Belgium N.V.		■	Antwerp, Belgium
Polysar Europa N.V.		●	Antwerp, Belgium
Polysar Technical Centre N.V.		▲	Antwerp, Belgium
Polysar France S.A.		■▲	Strasbourg, France
Société Française Polysar		●	Paris, France
Polysar Nederland B.V.		■▲	Arnhem, The Netherlands
Polysar Handelmaatschappij B.V.		●	Arnhem, The Netherlands
Polysar (UK) Limited		●	Guildford, England
		●	Manchester, England
Polysar (Deutschland) GmbH		●	Wiesbaden, Federal Republic of Germany
Polysar Italiana S.p.A.		●	Milan, Italy
Polysar Espanola S.A.		●	Barcelona, Spain
Polysar Skandinaviska A.B.		●	Göteborg, Sweden
Bellaplast GmbH	Head Office		Weisbaden, Federal Republic of Germany
		■●	Alf
		■●	Deizisau and
		■●	Kleve, Federal Republic of Germany
Polysar Australia Pty. Ltd.		●	Melbourne, Australia
Polysar do Brasil Produtos Quimicos Ltda.		●	Sao Paulo, Brazil
Polysar International S.A.	Branch Offices	●	Tokyo, Japan
		●	Hong Kong
Hules Mexicanos S.A. (40%)		●	Mexico City, Mexico
		■	Tampico, Mexico
CanStates Energy (45%)		●	Calgary, Alberta

■ Manufacturing location
▲ R & D/Technology location
● Marketing/Sales locations

Corporate Directory

Corporate Management

R. S. Dudley
President and Chief Executive Officer

C. Ambridge
Group Vice-President, Rubber

G. F. Bentley
Group Vice-President, Basic Petrochemicals

M. Abbott
Vice-President, Technology

J. Beaton
Vice-President, Diversified Products

A. T. Cousins
Vice-President, Finance and Administration

S. J. Goldenberg
Vice-President, Personnel

R. B. Grogan
Treasurer

J. Havlik
Corporate Secretary

Business Management

P. S. Byrne
General Manager, Latex Division

I. Cheyne
General Manager, Plastics Division

P. Choquette
Vice-President, Rubber, North and South America

D. A. Henderson
Vice-President, Rubber and Plastics, Europe and Rest of World

G. M. Hicks
General Manager, Asia-Pacific

W. D. Rion
General Manager, Specialty Division

Board of Directors

P. Côté
Montreal, Quebec
Chairman of the Board, Celanese Canada Inc.

W. A. Dimma[1]
Toronto, Ontario
Chairman of the Board, Polysar Limited
President and Chief Executive Officer, Royal LePage Limited

R. S. Dudley[1]
Sarnia, Ontario
President and Chief Executive Officer, Polysar Limited

J. B. Hague
Calgary, Alberta
President, and Chief Operating Officer, Canterra Energy Ltd.

H. A. Hampson[1]
Toronto, Ontario
President and Chief Executive Officer, Canada Development Corporation

B. F. Isautier[2]
Toronto, Ontario
Executive Vice-Preside Canada Development Corporation

J. W. Johnstone Jr.
Stamford, Connecticut
President, Olin Corporation

G. Kraijenhoff
Arnhem, The Netherlands
President, Supervisory Council AKZO N.V.

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Kingston, Ontario
Corporate Director

R. H. Marchessault[2]
Mississauga, Ontario
Vice-President, Xerox Research Centre of Canada

D. P. Owen
Toronto, Ontario
Vice-President, Canada Development Corporation

I. C. Rush
Sarnia, Ontario
Corporate Director

D. C. H. Stanley[1,2]
Toronto, Ontario
Corporate Director

F. C. Wilkinson
Vancouver, British Columbia
Chairman and Chief Executive Officer, Wilkinson Company Limited

[1]Member of the Executive Committee
[2]Member of the Audit Committee

Polysar Quality

- **Polysar is noted for the excellence of its products and services.**
- **Customers wish to do business with suppliers who consistently provide excellence in the quality of their products and in the services they provide.**
- **Our employees take pride in their work and wish to provide quality products and services to our customers.**
- **The cost of poor quality performance cannot be tolerated in today's competitive environment.**

Given the above, we reaffirm our commitment to be a quality leader in our industry. We will put in place the resources needed to achieve this and we will demonstrate our commitment to quality by our actions.

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